

Message Text

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C O N F I D E N T I A L BUDAPEST 3996

E.O. 11652: GDS

TAGS: HU, US, ECON, PFOR, PINT, ENRG

SUBJECT: QUARTERLY REPORT ON MAJOR POLITICAL AND ECONOMIC TRENDS

REF: BUDAPEST 3995 SECTION 1 OF 4

1. REFORMIST INTERNAL POLICIES - HUNGARY HAS ADVANCED FURTHER THAN ANY OTHER EE COUNTRY IN INTERNAL FREEDOM PERMITTED ITS PEOPLE AND IN REORIENTING ITS ECONOMIC STRUCTURE FROM A CENTRALLY-DIRECTED AND ADMINISTRATIVELY-CONTROLLED ECONOMY INTO A MARKET-ORIENTED (THOUGH SOCIALIST) ONE. AMELIORATION OF LIFE AND EVOLUTION OF SYSTEM TOWARD ONE LESS HOSTILE AND LESS-INCOMPATIBLE TO OURS ARE HUNGARY'S MAIN CLAIMS TO SYMPATHETIC ATTENTION FROM US. WHAT HAPPENS TO THIS APPROACH IS, THEREFORE, OF CENTRAL IMPORTANCE TO US.

A. NEM- MOST IMPORTANT CURRENT ELEMENT OF THIS POLICY IS "NEW ECONOMIC MECHANISM" (NEM)- POLICY INTRODUCED IN 1968 WHICH ESTABLISHED MARKET ORIENTATION OF HUNGARY'S ECONOMY. FATE OF THAT POLICY WILL DETERMINE POLITICAL DIRECTION OF HUNGARY, WHERE, THEN, IS IT NOW HEADED? IN 1972 AND AGAIN THIS FALL THERE WERE DETAILED REVIEWS OF THIS POLICY AT CENTRAL COMMITTEE (CC) MEETINGS. IN 1972 MEASURES WERE TAKEN TO RESTRICT FOREIGN EXCHANGE

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EXPENDITURES, TIGHTEN CONTROLS OVER NEW INVESTMENT, PLACE

A NUMBER OF LEADING INDUSTRIES UNDER CLOSER DIRECT STATE SUPERVISION, AND GIVE WAGE INCREASES TO WORKERS IN SOME INDUSTRIES WHERE PROFIT FIGURES DID NOT WARRANT THEM. AGAIN THIS FALL CENTRALLY-DIRECTED WAGE INCREASES WERE DECIDED UPON FOR A NUMBER OF INDUSTRIES, SOME PRICE CONTROLS WERE TIGHTENED, AND A NEW SET OF "ECONOMIC REGULATORS" WAS FORESHADOWED FOR THE NEXT FIVE YEAR PLAN (1975-1980). WHILE THESE ESSENTIALLY CONSERVATIVE STEPS WERE TAKEN THERE WERE FEW, IF ANY, FURTHER LIBERALIZING STEPS. IMPLICATION MIGHT BE DRAWN THAT HUNGARY IS RETREATING FROM ITS LIBERAL REFORM MEASURES. THAT CONCLUSION WOULD, HOWEVER, BE MISTAKEN. BOTH AT NOVEMBER SESSION OF CC AND AT DECEMBER SESSION OF PARLIAMENT PARTY AND GOVERNMENT LEADERS EXPRESSED HIGH SATISFACTION WITH GROWTH RATE OF HUNGARIAN ECONOMY AND INCREASE IN CONSUMER GOODS MAKING CLEAR AT SAME TIME THEY INTENDED TO PUSH AHEAD WITH NEM. IN A SERIES OF CALLS ON SENIOR ECONOMIC OFFICIALS OF GOVERNMENT I HAVE INVARIABLY MET SATISFACTION WITH RESULTS OF POLICY AND A DETERMINATION TO PURSUE IT. THEY SAY WITH SOME PRIDE AS WELL THAT THEY ARE NOW BEING EMULATED IN THIS APPROACH ELSEWHERE IN EE. WHILE CURRENT ADJUSTMENTS IN OPERATION OF POLICY ARE ESSENTIALLY CONSERVATIVE ONES, THEY ARE DESIGNED FUNDAMENTALLY TO MAKE NEM FUNCTION MORE EFFICIENTLY. THERE IS NO DOUBT THAT THE POLICY WILL CONTINUE AND WE DO NOT ASSESS THE CHANGES AS BEING DETRIMENTAL TO ITS MAIN THRUST. FAVORABLE ECONOMIC RESULTS HAVE BEEN SO APPARENT THAT IT IS AS DIFFICULT TO FORESEE IDEOLOGICAL OPPOSITION (WHICH DOES STILL EXIST AMONG SOME) BECOMING DOMINANT IN MONTHS IMMEDIATELY AHEAD.

B. INTERNAL FREEDOMS - KADAR'S SLOGAN THAT THOSE WHO ARE NOT AGAINST US ARE WITH US STILL DOMINATES APPROACH OF GOVERNMENT LEADERSHIP. IT WAS REFLECTED AGAIN IN CC STATEMENT THIS FALL THAT ALL POSITIONS IN SOCIETY, ECONOMY, AND GOVERNMENT, EXCEPT THOSE IN PARTY, WERE OPEN TO ANYONE (PARTY OR NON-PARTY) WILLING TO CONTRIBUTE TO CONSTRUCTION OF SOCIALISM. HUNGARY CONTINUES TO ENCOURAGE A WIDE PARTICIPATION OF ITS PEOPLE IN OVERALL LIFE OF COUNTRY AND TO ALLOW THEM A REASONABLE LATITUDE

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IN DOING SO. THIS DOES NOT MEAN, HOWEVER, THAT THERE ARE NOT DEFINITE IDEOLOGICAL RESTRAINTS NOR THAT INTERNAL SOCIAL CHANGES HAVE KEPT PACE WITH POLITICAL CHANGES. WHILE HUNGARIANS HAVE WIDEST FREEDOM OF EXPRESSION IN EE (AND CAN EVEN SATIRE-IZE KADAR IN THEIR THEATRE) 1972 HAS SEEN EXPULSION FROM PARTY OF A FORMER PM. RECENTLY AMERICAN EXCHANGE SCHOLAR WAS ALSO EXPELLED, APPARENTLY FOR CONTACT WITH A GROUP ASSOCIATED WITH HIM. AND THERE

WAS EMPHASIS IN CENTRAL COMMITTEE DECLARATION ON NEED FOR NEW BLOOD IN CADRES AND A WARNING TO PRESENT LEADERS THAT THEY ARE BEING WATCHED CLOSELY FOR SIGNS OF INSUFFICIENT LOYALTY TO "SOCIALIST PRINCIPLES" AND TENDENCIES TOWARD PERSONAL ENRICHMENT. THIS QUESTION IMPACTS UPON US MOST DIRECTLY IN CONNECTION WITH CULTURAL AND SCIENTIFIC EXCHANGES, POSSIBILITY OF BROADER OPPORTUNITY FOR US TO PURSUE INFORMATIONAL AND CULTURAL PROGRAMS IN HUNGARY, SAFETY OF HUNGARIAN-AMERICANS VISITING THE COUNTRY, AND PROSPECTS FOR A CULTURAL-SCIENTIFIC AGREEMENT. APPARENTLY MORE ACTIVE HUNGARIAN SECRET POLICE ACTIVITY VIS-A-VIS HUNGARIAN-AMERICANS THIS FALL, COUPLED WITH THEIR ACTION AGAINST EXCHANGE SCHOLAR, AND SLOW PROCESS OF NEGOTIATION OF A CULTURAL-SCIENTIFIC AGREEMENT RAISES QUESTION WHETHER WE ARE DUE

FOR SOME RETRENCHMENT RATHER THAN ADVANCE IN THIS FIELD. WHILE ANSWER TO ECONOMIC QUESTION IS CLEAR, THIS ONE IS MORE DIFFICULT AS CONSERVATIVE FORCES IN SOCIAL AREA ARE STRONGER THAN THOSE IN ECONOMIC AREA. OUR IMPRESSION IS THAT INCREASED VIGILANCE PARTY IS EXERCISING OVER HUNGARIAN SOCIAL SCIENTISTS WILL HAVE A NEGATIVE, THOUGH NOT PRECLUSIVE, IMPACT ON THEIR WILLINGNESS TO ACCEPT AMERICAN SCHOLARS IN THESE AREAS. REPERCUSSIONS OF EXPULSION OF PROF DAK WILL ALSO MAKE NEGOTIATION OF CULTURAL AGREEMENT MORE DIFFICULT. BUT SCIENTIFIC AND ECONOMIC EXCHANGES WILL PROBABLY NOT BE AFFECTED. OUR ASSESSMENT THEN IS THAT SCIENTIFIC AND ECONOMIC EXCHANGES WILL CONTINUE TO ADVANCE. WHILE CULTURAL-SCHOLARLY EXCHANGES WILL ALSO MOVE AHEAD, THEY WILL DO SO MORE SLOWLY AND WITH GREATER FRICTIONS. HUNGARIANS HAVE ALSO INDICATED THAT FINAL CONCLUSION OF CULTURAL-SCIENTIFIC AGREEMENT WILL BE ASSOCIATED WITH EXTENSION

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OF MFN. WE THINK THEY WILL AGREE TO START NEGOTIATIONS ON AGREEMENT IN SPRING, BUT IT IS UNLIKELY TO GO INTO EFFECT UNTIL WE EXTEND MFN.

PEDERSEN

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